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RUEHMD/AMEMBASSY MADRID 8837  
RUEHRB/AMEMBASSY RABAT 2210  
RUEHTU/AMEMBASSY TUNIS 7063  
RUEHTRO/AMEMBASSY TRIPOLI  
RUEHNC/AMEMBASSY NOUAKCHOTT 6259  
RUEHNM/AMEMBASSY NIAMEY 1500  
RUEHBP/AMEMBASSY BAMAKO 0447  
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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 000253

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STATE FOR NEA/MAG (FLOWERS)  
STATE PASS FOR USTR (BURKHEAD)  
CAIRO FOR TREASURY (SEVERENS)

E.O. 12958: DECL: 03/03/2018

TAGS: [ECON](#) [ETRD](#) [EAGR](#) [AG](#)

SUBJECT: OFFICIAL INFLATION STATS MASK STUNTED MARKET  
ECONOMY

REF: A. ALGIERS 003

[1](#)B. 07 ALGIERS 1214

[1](#)C. 07 ALGIERS 367

Classified By: Deputy Chief of Mission Thomas F. Daughton;  
reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Although official figures show a relatively modest inflation rate of 3.5 percent, Algerians are complaining loudly about the high and rising cost of living in Algeria. Economists and even Algerian government officials argue that official inflation calculations underestimate what is likely a 7 to 8 percent real inflation rate. High global commodity prices and Algeria's heavy reliance on imported food products continue to push inflation upwards, but experts also note that speculation and non-competitive practices have compounded the problem. In an effort to blunt the impact of rising prices, the government has increased subsidies on many food products. While this may create short-term relief, the long-term impact is to discourage investment in Algeria's agricultural sector and prolong reliance on imported agricultural products. With prices high and rising even higher, Algerians are questioning why they are not reaping the benefits of their country's wealth. END SUMMARY.

THE NUMBERS CAN LIE  
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[1](#)2. (C) Despite an official inflation rate of 3.5 percent, economists and even Algerian government officials argue that real inflation is significantly higher. Mohamed Ghernaout, private financial consultant, estimates that real inflation is closer to 7 or 8 percent. Official inflation is kept artificially low through the use of an outdated basket of goods in the Consumer Price Index (CPI) calculation. Rachid Zekri, Director of Macroeconomic and Financial Studies at the Ministry of Finance, told us that the basket currently used was weighted in 1989 -- a time when cars and cell phones were not part of a normal household's expenditures and the prices for most products were still controlled. Although the government still maintains a system of fixed prices and subsidies for

staples such as milk, wheat-based products, sugar and flour, the prices for chicken, eggs, beef, cooking oil, and fruits and vegetables have all been liberalized. Mohamed Yazid Boumghar, Permanent Researcher at the National Center for Applied Economic Research (CREAD), characterized the official inflation statistics as "ridiculous." He said that weight decreases for products such as yogurt have also disguised inflation by keeping prices at previous levels. The weight per container of yogurt, he noted, has decreased from 125 grams to 100 grams while the price has remained the same, representing an effective price increase of 25 percent.

#### HIGH PRICES EVEN HIGHER

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13. (U) As Algeria imports nearly USD 5 billion in food imports annually, it has been hard hit by rising world commodity prices. Algeria relies heavily on imported wheat, milk powder and animal feed to meet domestic consumption, leading to steep price hikes in prices for liberalized food products and a rising subsidy bill for goods with fixed prices. Although the CPI reflects a 6.6 increase in food prices from 2006 to 2007, many Algerians complain that the original prices were already high and are now increasingly burdensome for the average Algerian household. According to a table compiled by the National Union for Public Administration and Personnel (SNAPAP), prices for meat have increased between 400 and 500 percent from 1989 to 2007 and fresh vegetables between 200 and 300 percent during the same time period. In comparison, the minimum wage has only risen 50 percent, from 8,000 dinars per month to 12,000 dinars (roughly 182 USD). Currently, one kilo of chicken costs 190-250 dinars (2.90 - 3.80 USD)

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and one kilo of beef runs about 700-800 per kilo (10.60 - 12.15 USD). The CPI for Algiers weights about 44 percent for food, 5.6 percent for lodging, 6.8 for furnishings and home expenses, 11 percent for clothing, 3.4 percent for healthcare, 6.5 percent for education and leisure, 11.5 percent for transport and communications, and 10.6 percent for other miscellaneous expenses. According to this allocation, an Algerian making the minimum wage would spend 672 dinars (10 USD) per month on housing and 5,280 dinars (80 USD) per month for food -- reflecting the disconnect between current prices and Algerian purchasing power.

#### MARKET FORCES NOT AT WORK

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14. (C) Even as rising world commodity prices have created upward pressure on prices, several economists argue that speculation and non-competitive practices have also played a role. Zekri stated that Algerian government efforts to increase purchasing power by raising salaries have fueled inflation by increasing demand and encouraging speculation. He noted that prices have already gone up in response to the announcement of a salary increase in 2008 that has yet to go into effect. In addition, Boumghar and Zekri both separately complained about the existence of de facto monopolies for certain products. Boumghar noted that privately-owned Cevital controls nearly 70 percent of the market share for cooking oil, adding that even for other products with more distributors present in Algeria, producers act as cartels by fixing prices. According to Boumghar, the absence of competition has permitted price increases beyond economic justification. Growing complaints in February that Cevital's price increases were speculative prompted the company to issue a detailed press communique refuting the existence of a monopoly and arguing that the increases were due to world price hikes.

#### SHORT-TERM RELIEF, LONG-TERM PROBLEMS

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15. (C) In an effort to blunt the impact of rising prices on Algerian consumers, the Algerian government has relied on subsidies for flour, milk, and semolina-based products (ref A). According to Minister of Commerce El Hachemi Djaaboub, in 2007 Algeria spent USD 2 billion subsidizing those three products alone. Over the past two years the price of cooking oil has increased 300 percent, leading Djaaboub to announce that the government is now considering regulating the price of cooking oil, as well. Ghernaout called the growth in subsidies "troubling" and noted that the subsidies will prevent investment in the agricultural sector. He emphasized that "prices are incentives" and the subsidies for imported wheat will have the effect of prolonging Algeria's deficit in wheat production. Zekri cautioned that Algeria's current subsidy expenditures would be unsustainable if the price of oil dropped to USD 50 per barrel. The move to subsidize products reflects a continued reliance on government control. Boumghar stressed that Algeria has not completed the transition from a centrally planned economy to a market economy. He complained that when the government intervenes, it intervenes ineffectively. Referencing government mismanagement of the potato supply (ref B), he lamented, "When you can't even manage potatoes, it's a serious problem."

COMMENT: KEEPING FREE MARKET FORCES AT BAY  
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16. (C) Although high hydrocarbon prices have made Algeria rich, the average Algerian has yet to reap much benefit from the country's newfound wealth. Keeping the official inflation rate low does little to disguise the situation on the ground. Algerians and expatriates alike complain of the high and rising cost of living in Algeria. High global commodity prices have pushed inflation up throughout the world, but Algeria's heavy reliance on imported food

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products and commodities makes it particularly vulnerable to world price rises. Government efforts to blunt the impact on Algerians by increasing subsidies may create moderate relief, but represent both a band-aid and a fig leaf on the serious structural problems in the economy. The government's efforts prevent market forces from working effectively, discouraging investment in the agricultural sector and prolonging reliance on imports.